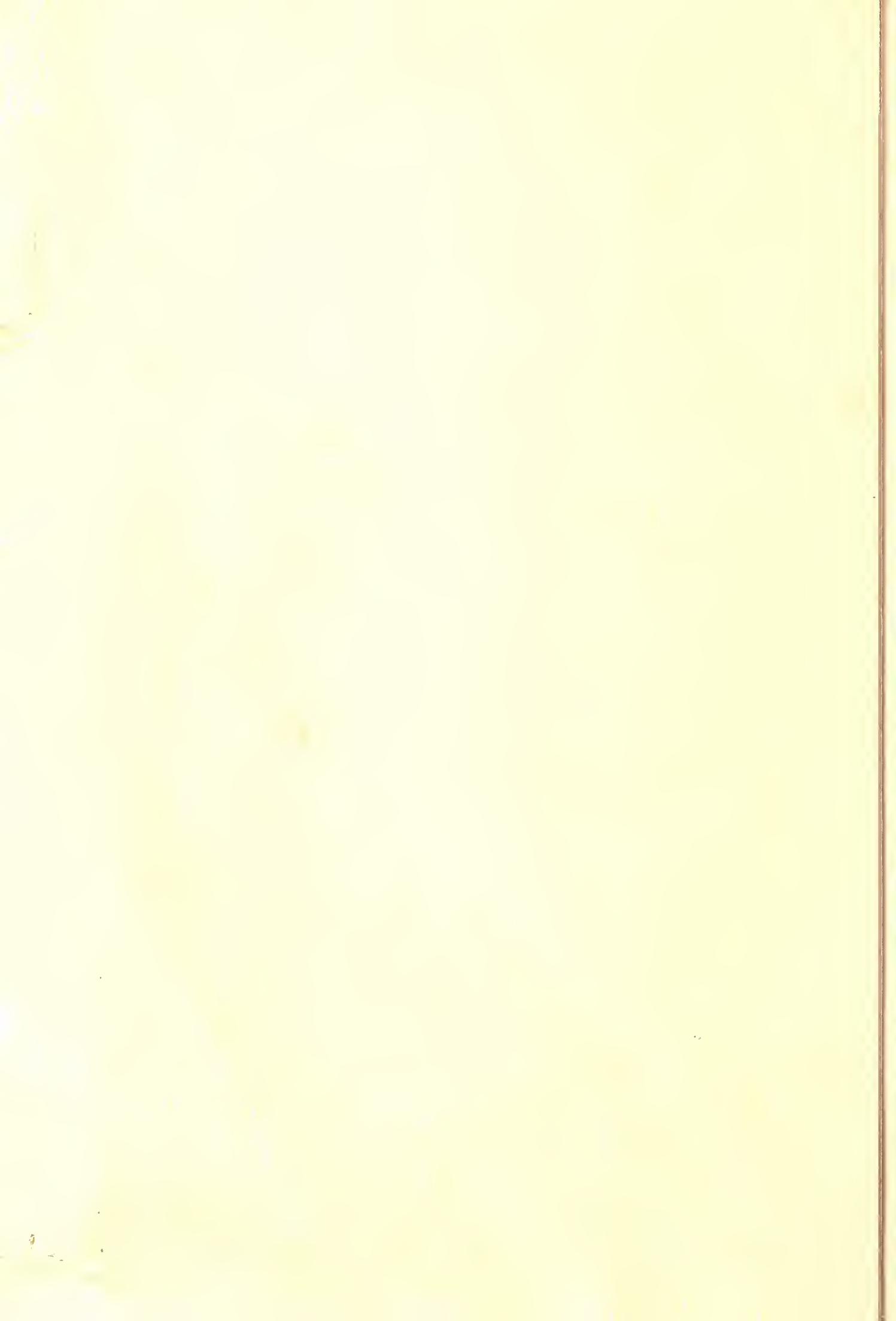


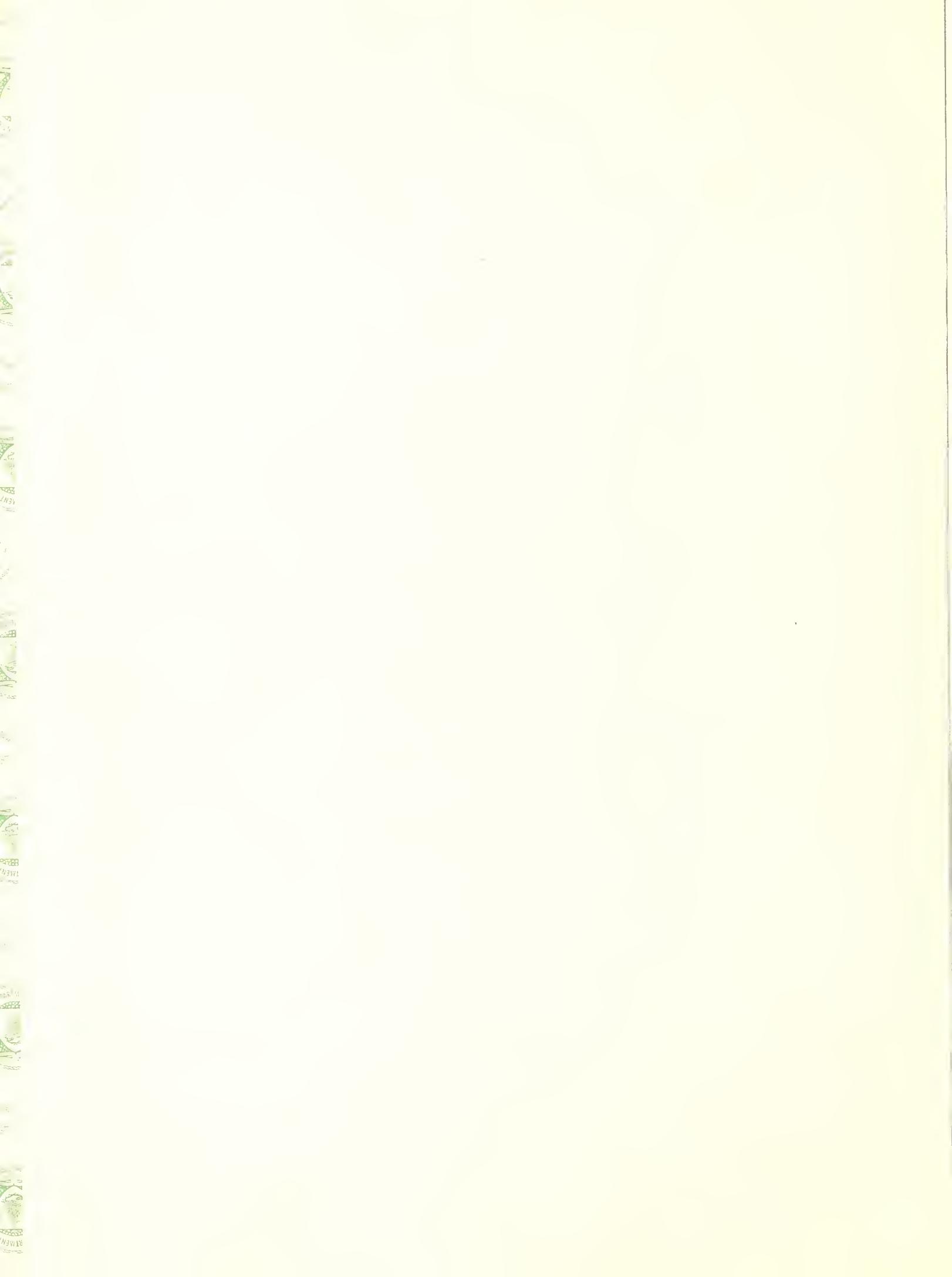
Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.



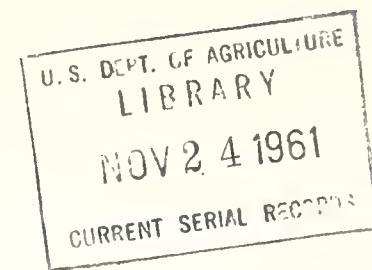






281.9
76 Em

5c
7-
October 1961 FAS M-123



3

IMPACT OF COMMON MARKET PROPOSALS ON COMPETITIVE STATUS OF U. S. BREAD AND FEED GRAINS IN THE EEC AREA

56 Foreign Agricultural Service
U.S. DEPARTMENT OF AGRICULTURE

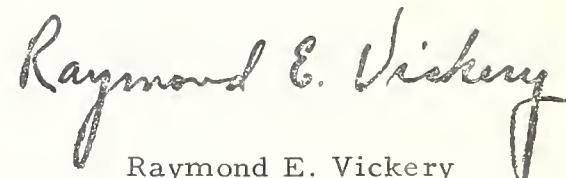
The six countries comprising the European Economic Community--Belgium, Luxembourg, the Netherlands, France, and the German Federal Republic--provide in the aggregate one of the most important commercial or dollar export outlets for U.S. wheat and feed grains. During the 5-year period ending with 1959-60 that area on the average took 13 percent of U.S. wheat and flour exports and 39 percent of the feed grain exports.

Objectives of the Community with respect to these grains and proposals for their implementation, should they be adopted, justify serious concern about the ability of the United States to share in any expansion in trade or even to maintain its exports to that area at the level of recent years.

On the assumption that the proposals will be adopted, the future market for U.S. wheat and feed grains in the Community will depend mainly on (1) guaranteed levels of EEC price supports for home-grown grains; (2) levels of controls over imports that would have to be adopted to maintain prices; and (3) extent to which a combination of such measures operates to encourage increased production within the EEC and to reduce import requirements.

This report was prepared with a view to bringing to a focus the position of wheat and feed grains in the agriculture of the Community; the nature of the Common Market proposals with respect to such grains; the problem of implementing those objectives in view of differences in the agricultural structures and current agricultural policies and programs of the individual member states; and the probable impact of the proposals on the demand for U.S. wheat and feed grains in the EEC market.

*The report was prepared prior to the recent announcement of the United Kingdom to seek full membership in the EEC and, therefore, does not take into account possible effects on U.S. grain exports of arrangements to accommodate the trade of Commonwealth countries. The United Kingdom is one of the world's largest single markets for grains. On the other hand, the Commonwealth countries include some of our most important competitors in the field of grain exports. It remains to be seen what, if any, changes in world grain trade patterns might result from this proposed enlargement of the European Community



Raymond E. Vickery
Director, Grain and Feed Division

CONTENTS

	<u>Page</u>
Summary and conclusions	1
EEC market for U.S. bread and feed grains	2
General objectives of the Common Market	2
Common agricultural policy	3
Problems in developing a common agricultural policy	4
EEC grain production trends	5
Wheat	6
Supplies and distribution	6
Price supports and other production incentives	7
Probable future trends	8
Rye	9
Feed grains	11
Supplies and distribution	12
Price supports and other production incentives	13
Probable future trends	13
Current production and trade policies of EEC countries	15
German Federal Republic	17
The Netherlands	18
Belgium	18
Luxembourg	19
Italy	19
France	20
Common Market proposals	21
Guidelines	22
Level of wheat production	22
Profitability of wheat production	22
Market stability for wheat	22
Level of feed grain production	22
Profitability of feed grain production	23
Market stability for feed grains	23
Protecting interests of traders, processors, and consumers	23
Target prices for wheat and feed grains	23
Intervention purchases	24
Variable import levies: General principle	24
Levies on imports from non-member countries	25
Levies on imports from member states	25
Levies on imports of durum wheat	26
Levies on processed products	26
Permissible changes in levies	26
Applicable date of import levies	26
Termination of customs duties and quantitative restrictions	27
Import and export licensing systems	27
Facilitating exports	28
European Grain Office	28
Funds	28
Miscellaneous measures	29
Time table for implementing proposals	30
Impact of EEC proposals on U.S. wheat and feed grain exports	31
General outlook	31
Wheat	31
Feed grains	33

IMPACT OF COMMON MARKET PROPOSALS ON COMPETITIVE STATUS OF U.S. BREAD AND FEED GRAINS IN THE EEC AREA

by

2
Leo J. Schaben*
Grain and Feed Division

SUMMARY AND CONCLUSIONS

The latest wheat and feed grain proposals of the European Economic Community (EEC)¹ call for changes in existing price support systems and methods of protecting local producers from foreign competition. Their adoption will continue and, on average, may even increase the producer incentives for maintaining and expanding the uneconomic production which has characterized the national grain policies of individual member states during the past quarter century.

Whether export prospects for U.S. grains will be greater or worse will depend primarily on the common price level adopted by the EEC. Even the lowest supports in individual member states are now higher than in the United States. A net increase would tend to encourage increased production in any area where expansion under such prices would be possible and feasible.

Studies made by the EEC indicate that continuation of current national grain policies will make the area about 99 percent self-sufficient for wheat (combination of all types) and 82 percent self-sufficient for feed grains by 1965. Self-sufficiency during the 5-year period ending with 1959-60 (July-June) averaged 89 percent for wheat and 75 percent for feed grains. Anticipated increases in self-sufficiency would be more the result of a continuation of present national policies than of adoption of the proposals.

EEC wheat production by 1965 is expected to cover all requirements as far as quantity, but not quality, is concerned. Consequently, imports will be limited to quality wheats for blending purposes. These now range around 1.5 million metric tons annually and will probably continue at that level for a number of years. Imports of other types, largely filler wheat, which now average 3.7 million tons annually, would be reduced to insignificant levels. Total imports of all types averaged 5.2 million tons annually during the 5 years ending with 1959-60.

Attainment of 82 percent self-sufficiency for feed grains would reduce annual import requirements by 10 to 15 percent from the current average of 7.8 million tons, unless the stimulating effect of the Common Market on EEC business, employment, and incomes results in substantially increased consumption of livestock products.

The latter would mean a further increase in demand for feed grains, a large part of which would have to be obtained from nonmember countries unless an attempt is made to maintain prices of locally grown feed grains at disproportionate levels by substantially increased producer subsidies and import restrictions. Such measures are not likely in the near future since they would increase livestock production costs and result in reducing the demand for both livestock products and feed grains.

The impact of Common Market proposals on EEC imports of wheat and feed grains from the United States and other outside countries cannot be gaged with any degree of certainty

*The outlook sections for wheat and feed grains, appearing at the end of the report, and all trade tables were prepared by Henry A. Baehr, USDA grain marketing specialist.

¹Called the Common Market and made up of Belgium, The Federal Republic of Germany, France, Italy, Luxembourg, and the Netherlands.

until detailed implementing measures are worked out and put into operation. That they are the subject of considerable concern is evidenced by the searching discussions carried on since last September at Geneva under the General Agreement on Tariffs and Trade (GATT).

The proposals would provide an undue competitive advantage to suppliers among the EEC'S own and overseas territories and relegate the United States and other nonmember exporting countries to a permanent position of residual suppliers. This would not be in harmony with the principles of broad and increasing trade relations with all other nations.

An important consideration is that economic development in the EEC is determined largely by possibilities open to member states for exports of the nonagricultural products which constitute more than 80 percent of the area's exports. A substantial reduction in EEC imports of bread and feed grains from non member countries would have an unfavorable impact on the Community's exports to such countries.

THE EEC MARKET FOR U.S. BREAD AND FEED GRAINS

The EEC area, as a whole, is the most important commercial foreign outlet for U.S. farm products. During 1959-60, when U.S. agricultural exports to all destinations totaled \$4.5 billion in value, shipments to meet the food, feed, and industrial needs of the 170 million people in the Community were valued at \$1.1 billion. Of the latter, U.S. bread and feed grains were valued at approximately \$285 million, or more than 25 percent of the total.

During the 5-year period ending with 1959-60, when total U.S. exports of wheat and flour averaged 12.2 million metric tons grain equivalent, approximately 13 percent went to the EEC area. In the same period, total U.S. exports of coarse grains (corn, oats, barley, and grain sorghums) averaged 9.0 million tons, with 39 percent going to the EEC area.

The importance of the United States as a source of supply for grain in the EEC area is indicated by the fact that during the 5 years ending with 1959-60, this country alone provided approximately 27 percent of the area's total imports of wheat and flour (grain equivalent), 30 percent of the rye, and 38 percent of the feed grains, on a tonnage basis. Such U.S. grain must meet not only the competition of the grain produced in the EEC countries themselves, but also that of grain imported from other outside countries. Outstanding among the latter are Canada, Argentina, Australia, the Soviet Union, the Danube Basin countries, the Middle East, and South Africa.

GENERAL OBJECTIVES OF THE COMMON MARKET

The European Economic Community is the world's largest trading area. Its total imports of all commodities in calendar 1959 were valued at \$22 billion and its total exports at \$25 billion.

Approximately one-third of the total trade in each direction was accounted for by trade among the member states. Agricultural products constituted approximately 36 percent of EEC imports and 14 percent of exports. About 18 percent of the agricultural imports came from the EEC area. Close to half of the agricultural exports went to the EEC area.

The EEC was established by the Rome Treaty of January 1, 1958. Its overall objectives are to promote throughout the Community a harmonious development of all economic activities, continuous and balanced expansion in production and trade, increased economic stability, accelerated improvement in living standards, and closer relations among member states. Under conditions and in accordance with timing specified in the Treaty, these objectives are to be achieved by:

- Elimination of customs duties and quantitative restrictions on trade among member states, including obstacles to the free movement of persons, services, and capital between such states, so that all intra-Community trade can be carried on under conditions similar to those prevailing in a single national market.

TABLE 1.--Bread and feed grains: EEC imports from the United States, EEC sources, and other countries, average 1955-56 through 1959-60¹ (July-June marketing year)

Product and Importing Country	United States		EEC Countries		Other Countries		Grand Total
	Total	Share	Total	Share	Total	Share	
Wheat and flour: ²	1,000 m.t.	Percent	1,000 m.t.	Percent	1,000 m.t.	Percent	1,000 m.t.
Belgium-Luxembourg	94.7	20.4	32.8	7.1	337.1	72.5	464.6
France.....	260.5	32.8	38.1	4.8	494.4	62.4	793.0
West Germany.....	596.0	23.1	430.1	16.7	1,555.8	60.2	2,581.9
Italy.....	51.4	14.0	2.0	.6	313.5	85.4	366.9
Netherlands.....	395.5	39.9	207.2	20.4	411.9	40.6	1,014.6
Total.....	1,398.1	26.8	710.2	13.6	3,112.7	59.6	5,221.0
Rye:							
Belgium-Luxembourg	9.1	13.9	34.3	52.4	22.1	33.7	65.5
France.....	--	--	1.8	37.5	3.0	62.5	4.8
West Germany.....	33.4	52.0	6.7	10.4	24.1	37.6	64.2
Italy.....	--	--	8.4	10.7	70.1	89.3	78.5
Netherlands.....	64.3	46.1	15.1	11.0	59.8	42.9	139.5
Total.....	106.8	30.3	66.6	18.9	179.1	50.8	352.5
Feed grains:							
Belgium-Luxembourg	733.7	50.7	186.0	12.9	526.8	36.4	1,446.5
France.....	99.6	23.2	6.5	1.5	323.7	75.3	429.8
West Germany.....	703.4	26.7	208.3	7.9	1,721.2	65.4	2,632.9
Italy.....	57.9	5.6	11.0	1.0	972.4	93.4	1,041.3
Netherlands.....	1,329.3	60.3	94.5	4.3	780.5	35.4	2,204.3
Total.....	2,923.9	37.7	506.3	6.5	4,324.6	55.8	7,754.8

¹1959-60 figures subject to revision

²Grain equivalent

- Establishment of a common customs tariff and a common commercial policy toward nonmember states. The principle of a common customs duty was dropped in the case of wheat, feed grains, sugar, and dairy products in favor of a system of variable import levies to equalize the difference between the world market and the domestic market price.
- Inauguration of a common agricultural policy and application of measures necessary for its implementation.

COMMON AGRICULTURAL POLICY

The agricultural situation in the EEC countries is dominated by a high degree of self-sufficiency with respect to many important temperate zone products (the Six have reached virtual self-sufficiency so far as quantity of wheat is concerned but in feed grains they still have a substantial deficit), wide variations in the balance between production and market outlets from commodity to commodity, and a lag in farm incomes compared with those earned by other segments of the economy.

The EEC is one of the world's leading agricultural producing areas. At the same time, it is the world's leading importer of agricultural products and one of the world's leading agricultural exporters. Member countries, therefore, agreed that production and trade in

agricultural products should be included in the Common Market. However, the Treaty specified that development and functioning of a common market for such products had to be achieved within the framework of a common agricultural policy.

The objectives of the common agricultural policy are: (1) To increase productivity by encouraging technical progress and by insuring rational development of production and optimum utilization of factors of production, especially labor; (2) to insure a fair standard of living for the agricultural population by increasing individual earnings of people engaged in agriculture; (3) to stabilize markets by insulating EEC prices of farm products from fluctuating world prices; (4) to guarantee regular supplies; and (5) to insure reasonable prices to consumers.

Problems in Developing a Common Agricultural Policy

In formulating a common agricultural policy, the task is to provide a solution for the problems confronting agriculture in the individual member states and to enable agriculture in those countries to pass from its present state to that envisioned for the Common Market as a whole. Such a common agricultural policy requires approval of all member states. The EEC Commission recognized that development of a mutually acceptable policy would be extremely difficult because of problems arising from differences in traditional agricultural structures and in the current agricultural policies and programs adopted by member states over the years for the solution of their individual agricultural problems.

Outstanding among these problems, all intimately associated with EEC wheat and feed grain supplies and requirements, are:

Differences in types of agricultural production in the various regions of member states, differences in the rate of expansion in production of individual crops, variations in the share of farmer incomes derived from crop farming and animal husbandry, and a substantial increase in agricultural production in the EEC as a whole;

Increase in crop production despite a decline in the number of people working in agriculture and in the area under cultivation, the increase reflecting higher yields and technical progress (mechanization, use of chemical fertilizers, pesticides, selected seeds, more productive varieties, etc.), and problems arising out of the fact that technical progress has been much greater in some regions than in others;

Increasing share of the products of animal husbandry in the gross value of overall agricultural production as reflected by upward trends in livestock numbers, more intensive cultivation of fodder crops, improvements in livestock feeding, use of better breeding stock, and use of larger quantities of grain (home-produced and imported) for animal feeding;

Numerous and considerable gaps and disparities among various member states in the intensity of agricultural production because of variation in natural conditions of production (soil, altitude, temperature, water availability, etc.), differences in the historical and economic development of the individual countries, and differences in the extent to which modern agricultural techniques have been adopted;

Population increases (although considerably below the U.S. rate), increasing food needs, and changing patterns of per capita food consumption, e.g., declining per capita consumption of food grains, potatoes, and leguminous vegetables in favor of increased consumption of fruits and vegetables, sugar, fats, and livestock products because of improved per capita incomes and changes in eating habits;

Impact on agricultural trade within the EEC and with outside countries of changes in the EEC share of its overall food supplies and patterns of agricultural production and consumption. The area's production of common wheat, sugar, potatoes, pork, and certain dairy products has increased more rapidly than consumption and is now virtually up to or in excess of needs. On the other hand, consumption of some other products, especially quality wheat, feed grains, beef, veal, eggs, and fats and oils, is outstripping production;

Lag in farmer incomes compared with those earned in other segments of the economy because of structural deficiencies (too small farms, excessive scattering of holdings, inadequate working capital, limited mobility of agricultural manpower, etc.), inability to use working capital to the best advantage because of structural deficiencies, unfavorable relation between prices received for farm products and prices farmers have to pay for means of production, and increasing production and marketing costs;

An excess of agricultural manpower. In relation to total crop and grass-land area, over 10 times as many people as in the United States try to make a living on farms in the EEC. Labor shortages are only local and are related to obsolete agricultural structure and production methods. Even the so-called labor-short areas employ much more labor in relation to the land than similar areas in the United States. Moreover, the decline in the number of people working on farms over the postwar period has been less than in the United States. A greatly increased movement of peasants from uneconomic farms is needed in order to raise rural living standards and improve the structure of agriculture in the EEC;

Necessity of protecting EEC agriculture from the full blast of competition from outside sources in the interest of achieving a balance between EEC production and marketing possibilities and insuring a fair level of income to farmers. The problem here is adoption of common measures that will expand trade with outside countries while simultaneously setting limits to outside competition on the EEC market;

Necessity of balancing EEC supply and demand for milk, production of which is increasing more rapidly than consumption because of government aid to dairy industries and increasing yields per cow. (Relatively low per capita consumption of liquid milk has been offset only in part by increased consumption of cheese, tinned milk, and butter. At the same time, prospects for disposing of surplus milk through expansion in exports of cheese, tinned milk, and butter are not considered favorable except with increased state subsidies.) The EEC Commission feels that more attention must be devoted to promoting expansion in per capita consumption of liquid milk, adoption of modern methods of milk production, and use of more of the available feed for the production of fat cattle rather than milk so as to allow production of meat to rise without greatly increasing the number of milk cows and milk production;

Formulation and implementation of measures that will encourage continued expansion in numbers of meat producing animals and in egg production; assure satisfactory prices to producers of beef, veal, pork, poultry meat, and eggs; protect producers from undue foreign competition; facilitate development of export outlets for such products; and simultaneously assure adequate feed grain supplies to livestock interests at reasonable prices;

Wide variations in prices received by EEC farmers because of differences in the general level of prices and purchasing power in individual member states, and differences in their individual policies regarding agricultural production, prices, and foreign trade; and

Accomplishing the overall objectives of a common agricultural policy without interference with EEC objectives for other segments of the economy.

Because of these factors, the common agricultural policy is to be developed and implemented by stages during a preparatory and transition period ending June 30, 1967. Proposals have already been drafted for wheat, feed grains, sugar, dairy products, beef and veal, pork, poultry, eggs, fruits and vegetables, and wine. These products account for 85 to 90 percent of the agricultural production of the EEC. Proposals for other products, notably rice, fats and oils, fish, and leaf tobacco are still under consideration.

EEC GRAIN PRODUCTION TRENDS

Aided by governmental incentives (price supports, subsidies for production requisites, compulsory use of home-grown grain, quantitative restrictions, price equalization fees on imports, etc.) and technological progress, total EEC production of wheat and feed grains has increased greatly since World War II.

Rye production showed a relatively small increase and the decline in oat production was more than offset by increased production of wheat, barley, and corn. The net increase was due largely to improvement in grain yields together with increased barley acreage--primarily as a result of shifts away from oats.

Wheat

Supplies and Distribution

Total EEC consumption of wheat for human food has shown no appreciable increase since the end of World War II--declining per capita consumption being offset by increased population. On the other hand, yields per acre increased greatly as a result of technological progress and the many production stimulants adopted by the six national governments, such as high price supports, freight and fertilizer subsidies, compulsory utilization of fixed quantities of home-grown wheat in flour milling, quantitative restrictions on wheat and flour imports, and state trading.

The increased production has been almost entirely in soft or common wheats, of which the major part is comparable to U.S. soft wheat. In fact, production has been increased to such an extent that substantially increased quantities in some recent years have had to be exported or diverted into feed use. During the 5-year period ending with 1959-60, the combined total export surplus of common wheat in EEC countries averaged 2.8 million metric tons annually, most of it originating in France. About one-fourth was sold within the EEC.

While total EEC imports of wheat continue substantially larger than exports, net imports have been decreasing in recent years and the area is now virtually self-sufficient in common wheat. On the other hand, it continues as a deficit producer of durum and quality (hard) wheats. Demand for the latter has remained steady because of its need for blending with locally-grown soft wheat in order to produce flour of desired quality.

TABLE 2.--Bread and feed grains: EEC acreage, yield, and production, averages, 1935-39, 1950-54, and 1955-59

Grain and period	Acreage	Yield per acre	Production				
1,000 acres Bushels 1,000 bushels							
Wheat:							
1935-39.....	28,696	24.0	689,550				
1950-54.....	26,404	28.3	746,588				
1955-59.....	26,411	32.9	869,093				
Rye:							
1935-39.....	6,928	27.5	190,945				
1950-54.....	5,416	34.1	184,802				
1955-59.....	5,263	37.1	195,215				
Corn:							
1935-39.....	4,495	30.8	138,451				
1950-54.....	4,256	33.2	141,238				
1955-59.....	4,751	42.4	201,230				
Oats:							
1935-39.....	13,494	46.8	631,579				
1950-54.....	10,242	51.5	527,410				
1955-59.....	8,456	57.4	484,968				
Barley:							
1935-39.....	4,564	33.2	151,616				
1950-54.....	5,473	38.1	208,617				
1955-59.....	7,598	46.2	351,168				

TABLE 3.--Wheat and flour¹: EEC supply and distribution, average 1955-56 through 1959-60² (July-June marketing year)

Item	Italy	France	Germany	Belgium-Luxembourg	Netherlands	Total
	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
Supply:						
Beginning stocks..	2,423	1,114	2,018	230	7	5,792
Production.....	9,001	9,601	3,781	727	391	23,501
Imports.....	367	793	2,582	465	1,014	5,221
Total.....	11,791	11,508	8,381	1,422	1,412	34,514
Distribution:						
Apparent utilization.....	9,181	8,790	5,655	1,153	1,381	26,160
Exports.....	580	1,636	561	59	24	2,860
Ending stocks.....	2,030	1,082	2,165	210	7	5,494
Total.....	11,191	11,508	8,831	1,422	1,412	34,514

¹In terms of wheat equivalent.

²1959-60 figures subject to revision.

A comparison of total consumption of all types of wheat (soft, hard, and durum) with production shows that during the 5-year period ending with 1959-60, the EEC area as a whole was approximately 90 percent self-sufficient. (The deficiency is almost entirely in quality wheat and durum wheat.) The indicated level of self-sufficiency represents the average for a period in which wheat production tended to expand considerably while consumption remained unchanged and the degree of self-sufficiency increased. Net imports declined during this period by about 50 percent.

Price Supports and Other Production Incentives

In each EEC country, producer price supports for wheat are higher than the world price. However, the price varies greatly from country to country because of differences in the officially fixed level of supports and differences in the quantities for which such prices must be paid.

In the Netherlands, the producer support price applies to the entire crop. In France, Belgium-Luxembourg, and Italy, it applies only to specified quantities. In Germany, it applies to the entire crop, but a different price is fixed for each of four separate regions related to location of milling facilities and transportation costs from surplus to deficit areas.

In addition, a number of other measures are used, all of them designed to support the producer price and control the level of competition from foreign sources. These include compulsory utilization of specified quantities of home-grown wheat in flour milling, sliding scale price equalization fees on imported wheat and flour, quantitative restrictions on imports, bilateral agreements, and state import monopolies. Such measures vary from country to country according to the ratio of production to consumption requirements.

The extend to which they encourage increased production by assuring a market at high prices and protecting producers against foreign competition reduces correspondingly the area's import requirements. In addition, they force the United States and other supplying countries to seek markets elsewhere for quantities thus displaced and to compete in those markets with exports from the EEC.

TABLE 4.--Wheat: Average price supports for 1960 soft wheat in EEC countries compared with the United States

Country	Local units	Price	Dollar equivalent
			Per bushel
Belgium.....	Belgian francs per 100 kg.	470.0	2.56
Luxembourg (1959 crop).....	Belgian francs per 100 kg.	555.0	3.02
France ¹	New francs per 100 kg.	240.0	2.22
West Germany.....	Marks per metric ton	436.1	2.97
Italy ¹	Lire per 100 kg.	6,450.0	2.82
Netherlands.....	Guilder per 100 kg.	31.0	2.33
United States.....	Dollars per bushel	1.78	1.78

¹Price supports for durum wheat are substantially higher.

²Subject to deductions for various taxes, storage, and handling charges.

Probable Future Trends

Since maintenance of current levels of wheat production in all EEC countries will undoubtedly continue to be encouraged by governmental measures designed to maintain producer prices at higher than world market levels, production of soft wheat is not likely to decline. Moreover, as a result of the progress recently achieved in the development of new varieties of durum wheat in Italy and southern France, these countries may step up their production of durum wheat within a few years.

On the other hand, per capita wheat consumption is not likely to increase substantially because of an anticipated continued upward trend in consumption of other foodstuffs as a result of improvements in consumer purchasing power. This main problem of the Common Market with respect to wheat is to coordinate the price, production, and import policies of the individual member states so as to bring supply and demand into balance, while at the same time assuring reasonable prices to producers and consumers and protecting producers against the impact of competition from outside sources of supply.

A forecast of probable trends in EEC wheat and feed grains production and consumption, made by a group of independent experts late in 1960 at the request of the EEC Commission, indicated that if existing wheat policies of member states, particularly price policies, are continued, wheat production by 1965 would cover consumption so far as quantity but not so far as quality is concerned. Consequently there would be a continued need for imports of quality wheat.²

The group expressed the opinion that the degree of self-sufficiency for wheat would rise to 99 percent by 1965 and that net imports would decline. However, it gave no indication of the evolution of gross imports and exports. It also stated that, compared with the 1956 level, the area under wheat by 1965 would show a decline of about 3 percent, but that this would be more than offset by an increase in yields. According to the same forecast, total consumption for human food would show an increase of 3 percent if economic developments were weak, 2 percent if average, and 1 percent if strong, and net production (after deductions for seed, waste, and feed for horses) would show an increase of 18 percent. (Some estimates place the anticipated increase in net production at 3.5 million metric tons.)

It should be noted that these forecasts were based on the assumption that future grain policies in individual member states would continue the same as in the past. (Further comments on the probable impact of Common Market proposals on export potentialities for U.S. wheat in the EEC market are presented on pages 31 and 32.)

²Press background information, issued by European Community Information Service, Washington, D. C., Dec. 12, 1960.

TABLE 5.--Wheat and flour¹: Annual imports of individual EEC countries and average imports from the United States, EEC, and other countries, 1955-56 through 1959-60² (July-June marketing year)

Item	Italy	France	Germany	Belgium-Luxembourg	Netherlands	Total
	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
Annual:						
1955-56.....	725.9	583.6	2,554.5	476.6	908.7	5,249.8
1956-57.....	539.3	1,909.1	3,211.4	503.0	920.7	7,083.5
1957-58.....	378.7	402.1	2,619.6	443.6	1,021.0	4,865.0
1958-59.....	78.7	635.4	2,430.5	492.2	1,111.8	4,748.6
1959-60.....	111.7	434.7	2,093.6	407.6	1,110.7	4,158.3
Average:						
From U.S.....	51.4	260.5	596.0	94.7	395.5	1,398.1
From EEC.....	2.0	38.1	430.1	32.8	207.3	710.3
From Other.....	313.4	494.4	1,555.8	337.1	411.8	3,112.5
Total.....	366.8	793.0	2,581.9	464.6	1,014.6	5,220.9

¹Grain equivalent.

²1959-60 figures subject to revision.

TABLE 6.--Wheat and flour¹: Annual exports of individual EEC countries and average exports to the EEC and other countries, 1955-56 through 1959-60² (July-June marketing year)

Item	Italy	France	Germany	Belgium-Luxembourg	Netherlands	Total
	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
Annual:						
1955-56.....	82.0	2,683.7	363.8	14.9	81.5	3,225.9
1956-57.....	635.0	393.3	335.2	15.0	11.8	1,390.3
1957-58.....	865.9	2,278.6	653.4	37.2	7.7	3,842.8
1958-59.....	885.7	1,055.2	665.4	90.9	12.8	2,710.0
1959-60.....	433.8	1,766.6	786.2	137.8	5.6	3,130.0
Average:						
To EEC.....	48.7	443.1	127.7	46.8	14.5	680.8
To Others.....	531.8	1,192.4	433.3	12.4	9.4	2,179.0
Total.....	580.5	1,635.5	560.8	59.2	23.9	2,859.8

¹Grain equivalent.

²1959-60 figures subject to revision.

Rye

Although declining in importance, rye has long been an important crop in the agriculture of EEC countries because of its dual use as a bread and a feed grain, its modest soil and climate requirements, its cheapness compared with wheat, and its role in crop rotation.

The EEC as a whole is a net importer of rye. Imports during the 5-year period ending with 1959-60 averaged 353,000 metric tons annually and exports 154,000 tons. The Commission has made no specific proposals regarding rye except that until the end of the 1963-64

TABLE 7.--Wheat and Flour¹: EEC Intra-Community trade, trade with the United States and other countries, and total trade for stated periods² (July-June marketing year)

Period and item	Imported from and exported to			Total trade
	EEC	United States	Other countries	
Average 1955-56/1959-60	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
Imports.....	710	1,398	3,113	5,221
Exports.....	681	--	2,179	2,860
Net trade.....	29	1,398	934	2,361
Average 1957-58/1959-60				
Imports.....	816	824	2,951	4,591
Exports.....	780	--	2,448	3,228
Net trade.....	36	824	503	1,363
Annual 1959-60				
Imports.....	896	646	2,616	4,158
Exports.....	855	--	2,275	3,130
Net trade.....	41	646	341	1,028

¹Grain equivalent.

²1959-60 figures subject to revision.

TABLE 8.--Rye: EEC supply and distribution, average 1955-56 through 1959-60¹
(July-June marketing year)

Item	Italy	France	Germany	Belgium-Luxembourg	Netherlands	Total
Supply:	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
Beginning stocks..	27	11	1,108	(²)	(²)	1,146
Production.....	106	459	3,879	445	200	5,089
Imports.....	78	5	64	140	65	352
Total.....	211	475	5,051	585	265	6,587
Distribution:						
Apparent utilization.....	177	451	3,751	569	265	5,213
Exports.....	--	13	125	16	--	154
Ending stocks.....	34	11	1,175	--	--	1,220
Total.....	211	475	5,051	585	265	6,588

¹1959-60 figures subject to revision.

²Not available.

Table 9.--Rye: Annual imports of individual EEC countries and average imports from the United States, the EEC and other countries, 1955-56 through 1959-60¹ (July-June marketing year)

Item	Italy	France	Germany	Belgium-Luxembourg	Netherlands	Total
	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
Annual:						
1955-56.....	111.3	13.2	13.2	106.0	128.3	372.0
1956-57.....	43.4	6.0	140.8	83.1	154.5	427.8
1957-58.....	68.7	--	116.5	53.6	112.1	350.9
1958-59.....	60.2	2.1	22.1	54.2	109.0	247.6
1959-60.....	109.1	2.8	28.4	30.5	193.6	364.4
Average:						
From U.S.....	--	--	33.4	9.1	64.3	106.8
From EEC.....	8.4	1.8	6.7	34.3	15.4	66.5
From Other.....	70.1	3.0	40.1	22.1	59.8	179.2
Total.....	78.5	4.8	64.2	65.5	139.5	352.5

¹1959-60 figures subject to revision.

TABLE 10.--Rye: Annual exports of individual EEC countries and average exports to the EEC and other countries, 1955-56 through 1959-60¹ (July-June marketing year)

Item	Italy	France	Germany	Belgium-Luxembourg	Netherlands	Total
	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
Annual:						
1955-56.....	--	--	329.9	.1	33.4	363.4
1956-57.....	--	--	30.7	1.0	22.4	54.1
1957-58.....	--	47.3	46.5	--	11.0	104.8
1958-59.....	--	8.8	157.7	--	4.4	170.9
1959-60.....	--	8.8	61.6	--	7.6	78.0
Average:						
To EEC.....	--	13.0	41.5	.2	13.1	67.8
To others.....	--	--	83.8	--	2.7	86.5
Total	--	13.0	125.3	.2	15.8	154.3

¹1959-60 figures subject to revision.

crop year, all of the proposals of the Common Market regarding wheat will apply equally to rye in areas where rye is consumed largely as bread grain, while those regarding feed grains will apply to rye in areas where it is used largely as a feed grain. Beginning with the 1964-65 crop year, rye is to be considered as a feed grain in the Community.

Feed Grains

Total EEC consumption of feed grains has been increasing by about 1.0 million metric tons annually in recent years. This reflects increasing concentration on expansion of

livestock production, increasing livestock numbers and human population, and an upward trend in per capita consumption of meat, eggs, poultry, and dairy products as a result of improvements in consumer purchasing power.

While some of the increased requirements have been met by expansion in domestic production resulting from price supports, import controls and other incentives, the area as a whole still must depend upon outside sources of supply for fully 25 to 30 percent of its feed grain needs. The import needs are concentrated in the German Federal Republic, the Netherlands, and Belgium. Italy is growing in importance as a feed grain importer, despite an upward trend in corn production, and now depends on imports for more than 20 percent of its requirements. France has had a substantial export surplus in recent years, especially of barley and corn.

Of the total available supply in the EEC, approximately 75 percent is used for feeding livestock and the balance for making various foodstuffs, beer etc. Only about one-third of home production finds its way to market as grain. Most of it is used for feed either on the farm itself or in the producing region. Imported feed grains constitute the bulk of the quantities traded on the market. The volume and price of imports, therefore, decisively influence the price of home-grown feed grains on the internal market.

Production has increased from the annual average of 15.8 million metric tons during the 5-year period ending with 1954-55 to 20.6 million tons in 1959-60. The increase is due almost entirely to improvements in yields. Despite this, production has not kept pace with expansion in demand. As a result, imports have had to be increased from an average of around 5.0 million metric tons during the 5 years ending with 1954-55 to an average of about 7.8 million tons during the 5 years ending with 1959-60.

Price Supports and Other Production Incentives

Individual EEC governments have long applied measures to protect the interest of their feed grain producers, some of them with little regard to the interests of producers of meat,

TABLE 11.--Feed grains¹: EEC supply and distribution, average 1955-56 through 1959-60² (July-June marketing year)

Item	Italy	France	Germany	Belgium-Luxembourg	Netherlands	Total
Supply:	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
Beginning stocks..	465	290	1,274	(²)	(²)	2,029
Production.....	4,363	9,378	5,621	796	868	21,026
Imports.....	1,041	430	2,633	1,447	2,204	7,755
Total.....	5,869	10,098	9,528	2,243	3,072	30,810
Distribution:						
Apparent utilization.....	5,353	9,087	8,293	2,219	2,940	27,892
Exports.....	15	575	60	24	132	806
Ending stocks.....	501	436	1,175	(³)	(³)	2,112
Total.....	5,869	10,098	9,528	2,243	3,072	30,810

¹Excluding rye.

²Not available.

³1959-60 figures subject to revision.

poultry, and dairy products. Not only have farmers been encouraged to increase production, but such encouragement has been supplemented by measures to protect them from foreign competition. As a result, feed grain production has increased and imports have been kept at a lower level than would otherwise be the case.

Although varying from country to country, current governmental intervention in behalf of feed grain producers in the six countries takes one or more of the following forms: Price supports, acreage payments to farmers, subsidies for production requisites, variable import levies or price equalization fees, import licensing, regulation of imports in accordance with annual supply and utilization programs, quantitative restrictions on imports, compulsory purchase of specified quantities of home-grown feed grains as a condition for an import license, and reimbursement of import levies when processed products or animal products based on feed grains are exported. Such measures, however, have not been sufficient to cause a substantial shift in acreage from wheat to feed grains.

Belgium and Italy are the only EEC countries without a system of guaranteed minimum producer prices for feed grains. In those countries, the protection given producers is confined to divorcing prices on the home market from those on the world market and stabilizing them at a higher level by various devices, principally import levies in the case of Belgium and quantity restrictions in the case of Italy.

In EEC countries where feed grain price supports are actually in operation, the supports are higher than the world market price. Prices of barley, the main factor determining EEC feed grain prices, are higher in all the EEC countries than those of comparable grades on the world market. In all instances, the spread between local market prices for feed grains and world market prices is less than that for wheat.

Probable Future Trends

In general, the trend in feed grain supplies and requirements in the EEC area in the next several years will depend on the general rate of economic development, which has a decisive influence on the rate of increase in the demand for meat, poultry, and dairy products.

TABLE 12.--Feed grains: Average price supports for 1960 crop in EEC countries compared with those in the United States

Country	In local units ¹			Dollar per bushel equivalent		
	Corn	Oats	Barley	Corn	Oats	Barley
Belgium.....	(²)	(²)	(²)	(²)	(²)	(²)
Luxembourg.....	(²)	(²)	(²)	(²)	(²)	(²)
France.....	³ 36.8	(²)	³ 32.2	³ 1.91	(²)	³ 1.42
West Germany.....	(²)	⁴ 312.5	⁵ 388.8	(²)	⁴ 1.13	⁵ 2.12
Italy.....	(²)	(²)	(²)	(²)	(²)	(²)
Netherlands.....	(²)	25.75	27.7	(²)	1.03	1.62
United States.....	--	--	--	1.06	.50	.77

¹New francs per 100 kilos in France; marks per metric ton in West Germany; and guilders per 100 kilos in the Netherlands.

²No price support.

³Subject to deductions for various taxes, storage and handling charges.

⁴Average for 2 types.

⁵Average for 4 types.

and thus directly on the demand for feed grains; development of export outlets for animal products in non-member countries; and the Common Market policy regarding feed grains, especially with respect to prices and the relation between prices of feed grains, wheat, and animal products.

Since off-farm sales of feed grains are relatively small, incomes of producers are determined more by the demand and price of animal foodstuffs than by the prices received for the feed grains themselves. (However, European farm spokesmen--except the Dutch--maintain that while feed grain prices are the primary determinant of livestock prices, the European livestock producer would be threatened with catastrophe if feed grain prices were reduced.)

All indications are that the demand for animal foodstuffs will continue to increase, and thus also the demand for feed grains. Reasons for the anticipated increase include the steadily growing importance of animal husbandry in the agricultural economy and national incomes of member states, upward trends in per capita consumption of animal foodstuffs as a result of increases in consumer incomes, population increases, continued upward trends in livestock numbers, and prospects for increased sales of animal products in export markets if export prices are maintained at competitive levels.

Unless the Common Market proposals result in a large-scale change in traditional patterns of land use, any further increase in EEC feed grain production must depend mainly on increased yields, which already are high, and on continued governmental incentives. While some further increase will undoubtedly take place, it is not likely that the rate of expansion can keep pace with the rate of increase in needs as long as governments in the six countries deem it necessary to maintain wheat production at prevailing levels by means of relatively higher price supports than for feed grains and more rigid controls over wheat and flour imports than over feed grain imports.

In the absence of policies favoring wheat production, a considerable shift from wheat to feed grains would probably long since have taken place. The EEC Commission has indicated its opposition, in the interest of stabilizing wheat production at current levels, to continued maintenance of import controls and price conditions that are more favorable to wheat than to feed grain production. Recognizing, on the other hand, that imported feed grains will make it easier to maintain exports of animal products, it has emphasized that current tendencies for further increases in availabilities of domestically produced feed grains as a result of technological developments should not be further accentuated by measures of an artificial character.

Increasing feed grain needs may be offset to some extent by improvements in feeding practices. Moreover, the quantities of home-grown feeds available for off-farm sales may be expected to increase in the future as a result of technological advances, especially increased yields and use of fertilizers and mechanical power. These developments would tend to reduce import requirements.

EEC imports from nonmember countries now (1955-56 through 1959-60) average 7.2 million metric tons annually and are likely to continue at a relatively high level unless additional governmental incentives to production are provided. Some possible measures are more attractive price supports in relation to those for wheat, additional restrictions on feed grain imports from outside sources, liberalization of EEC wheat imports in order to encourage a shift to feed grain production, subsidies to stimulate increased use of fertilizers and mechanical equipment in areas of relatively low farm labor supply because of earlier movements from rural to industrial centers, and aids to encourage conversions, wherever possible, of grass and idle lands to feed grains.

Such measures, however, would mean increased prices for the feed grains required by livestock producers, and would tend to reduce demand for both livestock products and feed grains. For these reasons, no large increase in feed grain acreage is expected in the near future.

According to the forecast of probable production and consumption trends made for the EEC Commission by the group of independent experts previously referred to, local production

(including potatoes, milling offals, and feed wheat in terms of feed grain equivalent) in the EEC area is expected to reach 88 percent of requirements by 1965, assuming an average rate of economic development. (Excluding such other products, the figure will probably be in the neighborhood of 82 percent. It was 75 percent for feed grains alone during the 5-year period ending with 1959-60.)

Also, according to this group, the area under coarse grains and potatoes (the Six are relatively large exporters of potatoes in terms of grain equivalent) would show a slight decline by 1965 compared with the base year, 1956; net production (after deductions for seed, waste, feed for horses, and increasing use of wheat for animal feed) would increase by 21 percent, largely because of increased yields; requirements, despite an anticipated increase of as much as 30 percent in consumption of animal products, would increase by no more than 13 percent if economic conditions were weak, 18 percent if average, and 22 percent if strong, because of declining consumption of coarse grains and potatoes for human food, anticipated further progress in animal feeding efficiency, and increasing use of wheat for animal feed; and net imports (minus the feed grain equivalent of potato exports) would be in the neighborhood of 6.5 million metric tons annually on the assumption of vigorous economic development and a resulting strong demand for animal products. (Net imports of feed grains alone during the 5 years ending with 1959-60 averaged 6.9 million metric tons annually.)

It should be noted that these forecasts are based on the assumption that future grain policies in individual member states would continue the same as in the past. (Further comments on the probable impacts of Common Market proposals on export potentialities for U.S. feed grains in the EEC market are presented on page 33.)

CURRENT GRAIN PRODUCTION AND TRADE POLICIES OF EEC COUNTRIES

While differing widely from country to country, measures to control competition from foreign sources of supply and assure producers a market for home-grown grain at prices above the world market level have long constituted a basic feature of the agricultural policies of the individual EEC member states.

Under the EEC proposals, these policies would be continued. However, some of the existing forms of intervention would be changed and all of them would be coordinated. The changes include fixing uniform market prices for all grains throughout the EEC area; eliminating such practices as compulsory mixing, state trading, permanent quantitative

TABLE 13.--Feed Grains¹: Annual imports of individual EEC countries and average imports from the United States, the EEC and other countries, 1955-56 through 1959-60²
(July-June marketing year)

Item	Italy	France	Germany	Belgium-Luxembourg	Netherlands	Total
	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
Annual:						
1955-56.....	526.4	650.2	2,153.9	1,258.7	1,828.4	6,417.6
1956-57.....	707.3	402.2	2,815.5	1,487.9	2,231.4	7,644.3
1957-58.....	905.9	349.5	2,295.6	1,476.5	1,871.7	6,899.2
1958-59.....	1,054.0	529.0	2,737.7	1,431.6	2,367.0	8,119.3
1959-60.....	2,013.0	218.3	3,161.7	1,578.0	2,722.9	9,693.9
Average:						
From U.S.....	57.9	99.6	703.4	733.7	1,329.3	2,923.9
From EEC.....	11.0	6.5	208.3	186.0	94.5	506.3
From Other.....	972.4	323.7	1,721.2	526.8	780.5	4,324.6
Total.....	1,041.3	429.8	2,632.9	1,446.5	2,204.3	7,754.8

¹Corn, oats, barley, and grain sorghum.

²1959-60 figures subject to revision.

TABLE 14.--Feed Grains¹: Annual exports of EEC countries and average exports to the EEC and other countries, 1955-56 through 1959-60² (July-June marketing year)

Item	Italy	France	Germany	Belgium-Luxembourg	Netherlands	Total
	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
Annual:						
1955-56.....	13.0	34.0	101.0	48.0	174.0	370.0
1956-57.....	18.0	1,588.0	69.0	22.0	78.0	1,775.0
1957-58.....	7.0	651.0	99.0	14.0	152.0	923.0
1958-59.....	2.0	79.0	15.0	9.0	135.0	240.0
1959-60.....	37.0	525.0	14.0	28.0	120.0	724.0
Average ¹ :						
To EEC.....	3.8	329.0	7.4	12.8	92.6	445.6
To others.....	11.6	246.4	52.2	11.4	39.2	360.8
Total.....	15.4	575.4	59.6	24.2	131.8	806.4
Average ³ :						
To EEC.....	3.8	342.0	48.9	13.0	105.7	513.4
To others.....	11.6	246.4	136.0	11.4	41.9	447.2
Total.....	15.4	588.4	184.9	24.4	147.6	960.6

¹Excluding rye which is used both as a food and as a feed grain.

²1959-60 figures subject to revision.

³Including rye.

TABLE 15.--Feed grains¹: EEC intra-community trade, trade with the United States and other countries, and total trade during stated periods² (July-June marketing year)

Period and item	Imported from and exported to ²			Total trade
	EEC	United States	Other countries	
Average 1955-56/1959-60				
Imports.....	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
Exports.....	506 445	2,924 --	4,325 361	7,755 806
Net trade.....	61	2,924	3,964	6,949
Average 1957-58/1959-60				
Imports.....	436 362	3,248 --	4,554 267	8,238 629
Exports.....	74	3,248	4,287	7,609
Net trade.....				
Annual 1959-60				
Imports.....	435 375	4,066 --	5,193 349	9,694 724
Exports.....	60	4,066	4,844	8,970
Net trade.....				

¹Excluding rye.

²1959-60 figures subject to revision.

import restriction, and freight and fertilizer subsidies; and abolishing customs duties on imports. The last would be replaced by a system of variable import levies equal to the difference between world market price levels and the prices fixed for grains grown in the EEC.

Until final formulation and implementation of the proposals, the United States and other grain exporting countries will continue to trade in the EEC area under the following existing regulations of individual member states.

German Federal Republic

In Germany, the government fixes floor and ceiling prices for all locally produced wheat, rye, barley, and oats and rigidly controls imports. Monthly minimum and maximum producer prices are fixed for wheat, rye, and brewing barley, and annual minimum and maximum prices for oats and other barley. The objective is to encourage farmers to produce as much as possible of the needs of the country's highly industrialized population.

For wheat and rye, the minimum and maximum producer prices are fixed in four separate regions related to location of milling facilities and transportation costs from surplus to deficit areas. During 1960-61, for example, the national average minimum for wheat was \$2.97 per bushel and the maximum \$3.08. For feed barley, the minimum was \$1.96 and the maximum \$2.18 per bushel.

The Import Storage Agency is obligated to buy grain from producers whenever they are unable to obtain the guaranteed minimum on the open market. Correspondingly, the Agency is obliged to draw upon its stocks and sell grain in the open market whenever market prices rise above the fixed maximum.

Imports of individual grains are regulated in accordance with annual supply and utilization programs. Import licenses are issued on the basis of bids submitted by private traders against government announcements authorizing imports of specified quantities. Licenses go to the lowest bidders and specify the quantities and countries from which the grains may be imported, the grade and quality to be imported, and delivery periods.

Also affecting the quantities that need to be imported are mixing regulations requiring the use, currently 80 percent, of domestic wheat in flour milling; compulsory purchases of home-grown rye, feed wheat, and feed barley as a condition for permits to import feed grains; and compulsory use of fixed percentages of home-grown rye in the manufacture of mixed feeds. The high compulsory admixture of home-grown wheat and quantitative import control are the most important factors curtailing U.S. wheat exports to Germany.

Another factor affecting the competitive status of U.S. grain in the German market is the system of import levies or price equalization fees. Under that system, importers have to conclude a contract with the Import and Storage Agency by which the latter buys the imported product at the importer's c.i.f. price and immediately resells it to him at a higher price. The importer is then free to market the grain. The difference, known as a skimming charge, is pocketed by the government.

The skimming charge is fixed at a high enough level to equalize the price of imported grain with that prevailing for the home-grown product. In the case of wheat, it is based on the importer's c.i.f. price of Manitoba No. 3 and the higher resale price fixed by the agency. The same skimming charge is then applied to all other imported wheat. The skimming charge for feed grains is based upon the importer's actual c.i.f. price for grain from any source and the higher resale price fixed for a representative type and grade of the same imported grain.

Germany obtains large quantities of grains under bilateral agreements which, in effect, discriminate against imports from the United States. Such agreements are in force with France, Sweden, Czechoslovakia, Bulgaria, Australia, Ireland, Hungary, Rumania, and the Soviet Union for bread and coarse grains and with Burma, Bulgaria, and Spain for rice.

Largely because of mixing regulations, quantitative restrictions on imports, interference with millers' choice of source the quality of imported wheat, and bilateral agreements, the U.S. share in the German wheat market during the 5-year period ending with 1959-60 was only 23 percent. During the same period, the U.S. share of Germany's feed grain imports was only 27 percent. In contrast, the U.S. share in the Netherlands' imports, where mixing regulations are more favorable to wheat imports and where there is no discrimination against imports from the United States, the U.S. share was 40 percent for wheat and 60 percent for feed grains.

The Netherlands

In the Netherlands, wheat imports are controlled mainly by means of compulsory utilization of home-grown grain and a quantitative limitation on wheat flour. Duty-free entry is allowed on 65,000 tons and any excess is dutiable at 3 percent ad valorem. In addition, there is a monopoly fee of 8.7 cents per bushel on wheat imports and 82 cents per 100 pounds on flour imported for human consumption.

The import levy is rebated on exported flour. The purpose of the monopoly fees is to equalize the price of the imported product with that of locally produced flour. Flour millers during 1960-61 had to use 30 percent home-grown wheat purchased at the fixed support price. The producer support price for the 1960-61 wheat crop was \$2.33 per bushel.

The Netherlands maintains so-called producer floor prices for other grains: \$1.62 per bushel for barley, \$1.03 for oats, and \$1.94 for rye in 1960-61. In order to assure that Dutch producers will be able to sell their feed grains at these prices, and especially to prevent feed mills and livestock industries from importing all of their requirements, variable import levies have been imposed for several years on all feed grain imports, even on corn and grain sorghums which are not produced locally and which constitute a large part of the country's total feed grain imports.

In that connection, a minimum c.i.f. import price is fixed for each feed grain as a basis for calculating the actual amount of the levy. The latter fluctuates in accordance with the differences between the actual c.i.f. import price and the higher fixed basic import price. In cents per bushel, the levies, late in July 1961 were: rye, 71; barley, 73; oats, 36; corn, 42; milo, 52; other grain sorghums, 57; and feed wheat, 46. Equivalent rebates are paid to exporters on reexports of feed grains or on exports of livestock and meat products made from such grains. All grain imports are subject to import licenses.

Profits arising out of support operations for wheat and feed grains are paid into an Agricultural Equalization Fund. Losses on the various price support schemes are borne by the fund. Any deficits are absorbed by the government.

Belgium

Wheat imports in Belgium are controlled by compelling flour millers to use a prescribed percentage of domestic wheat. For the 1960 crop, it is 70 percent with a provision that only 65 percent needs to be used if an equivalent amount of domestic wheat purchased at the existing support level is exported. Losses on such exports must be absorbed by the flour miller.

The Belgian monthly "target" prices for the 1960 wheat crop averaged \$2.56 per bushel. This price was payable on 700,000 metric tons, the portion of the crop required to maintain the 70 percent mixing ratio. Quantities marketed in excess of that figure must be sold in the export market or diverted to feed use at whatever price the market will bring.

The problem of the Belgian Government is to assure maximum use of home-grown wheat and, at the same time, maintain bread quality. A minimum of 30 percent imported quality wheat is necessary to assure flour of desirable quality. Since 70 percent domestic wheat in the mixture is considered to be the maximum that can be used, further expansion in the country's wheat acreage is unlikely.

There are no price supports for home-grown feed grains. High support prices for home-grown wheat since the end of World War II and the low prices at which foreign feed grains could be purchased, encouraged a substantial shift from feed grain to wheat production. As a result, Belgian feed grain acreage declined. In order to reestablish a more normal equilibrium between wheat and feed grain prices and production, the government, beginning in 1956, authorized a subsidy to farmers on the basis of the acreage planted to feed grains.

In addition, a system of license taxes on feed grain imports was established in 1957. These serve to maintain the price of both imported and home-grown feed grains at high levels. The license taxes--currently 99 cents per bushel for rye, 85 cents for barley, 57 cents for oats, 92 cents for corn and grain sorghums, and \$1.06 for feed wheat--are payable by the importer at the time an import license is issued. They serve to maintain the cost of imported feed grains considerably above the c.i.f. level, and constitute a serious impediment to imports. Receipts from the tax are used to subsidize livestock producers and to cover costs of diverting surplus wheat to feed use or into export channels.

Luxembourg

The economy of the Grand Duchy of Luxembourg is based almost entirely on manufacturing, mainly iron, steel, and related industries. Agriculture is of minor importance and operates under a highly protective system aimed at guaranteeing satisfactory producer incomes through price supports and measures to protect farmers from foreign competition. As far as wheat and feed grains are concerned, the country's price support and import control systems follow closely those of Belgium, its economic partner.

Various treaties to which Luxembourg is a signatory, such as BLEU, BENELUX, and GATT, permit the country to adopt special measures for the protection of its agricultural interests. The EEC requires the country to make possible the progressive integration of its agriculture into the Common Market.

Italy

In Italy, wheat growers each year are guaranteed a fixed price for a specified quantity of the crop. Wheat and flour imports are a state function, and can be made only on behalf of the Federazione Italiana Consorzi Agrari, a government agency. Imported wheat is sold to flour millers at the same price as that which they have to pay for home-grown wheat, the Federazione taking the difference. However, flour millers are permitted to import wheat at world market prices to cover any exports of wheat products.

A burdensome surplus of soft wheat developed in 1958-59. Domestic production of durum wheat, however, continued to fall short of requirements. The soft wheat surplus was disposed of by various export programs. Because of the poor 1960 crop, there was no export surplus in 1960-61. Total import requirements for soft and hard wheat in 1960-61 are estimated at 2.5 million metric tons--in contrast with 111,500 tons in 1959-60.

Government policy has been to discourage expansion in soft wheat production and encourage increased production of durum by maintaining a lower support price for the former than the latter. However, price supports for both types remain well above world market levels. The support price for the 1960 crop ranged from \$2.72 to \$2.93 per bushel for soft wheat and from \$3.52 to \$3.74 per bushel for durum, depending on producing area. These are the prices guaranteed for compulsorily pooled wheat, i.e., the wheat that must be sold to the government. The government sells the pooled wheat to flour millers at a considerable mark-up.

Compulsory deliveries of soft wheat in 1960-61 were reduced to 800,000 metric tons--down from 1.0 million tons the previous year--because of the poor 1960 crop. The delivery quota for hard wheat continued at 200,000 tons. Farmers can sell the rest of the commercial crop to private traders at whatever prices they are willing to accept. However, since the government controls all imports, the market prices for nonpooled wheat remain close to those fixed for compulsorily pooled wheat.

There are no price supports for feed grains. Feed grain production has not kept pace with the steady increase in demand resulting from increasing domestic consumption of livestock and meat products. The government hopes to bring about an increase in production through increased yields and shifts from soft wheat to feed grains. Feed grains import requirements for 1960-61 were placed at 2.5 million tons, most of that corn, compared with 2.0 million tons a year earlier. Feed grains are imported by private traders.

Due to the continued dollar discrimination policy of the Italian government, the U.S. share of feed grain imports is relatively small. Imports from dollar countries have been restricted for several years by means of licenses permitting unlimited imports from non-dollar areas, mainly Argentina, France, Yugoslavia, South Africa, Rumania, and Bulgaria for corn, and Australia, Argentina, North Africa, and the Soviet Union for barley, and very little from the dollar area.

Imports of oats from the dollar area were liberalized in June 1960. On October 31, 1960, the government partially liberalized corn and barley imports from the dollar area by authorizing issuance of import licenses for 6-month periods--January to June for corn and November to April for barley. Imports of grain sorghums are virtually prohibited from all countries.

France

In France, which now ranks among the major Free World grain exporters, the French Cereals Office guarantees producer prices for bread and coarse grains and exercises rigid controls over imports and exports. Farmers must sell their grain to dealers authorized to buy for the account of the Cereals Office. Resale prices are also fixed by that agency.

The latter, therefore, exercises a monopoly over purchases and subsequent sales, as well as over imports and exports. Guaranteed prices and import controls have made the country a large export surplus producer. They have reduced wheat imports to small quantities of durum and have prevented any important admixture of imported quality wheat in French milling of bread flour. In addition, they have resulted in large export surpluses of barley and corn.

French supports for the 1960-61 marketing season varied from \$1.80 to \$2.13 per bushel for soft wheat, depending on the quantity delivered. This price is limited to a total of 6.8 million metric tons, referred to as the "quantum." The quantum varies from year to year, depending on size of the crop and domestic milling requirements. For durum wheat, the guaranteed price was \$2.69 per bushel.

Producer prices for deliveries of nonquantum wheat, which are sold for feed export, are fixed later in the year. (During 1959-60 this price was \$1.30 per bushel.) The 1960-61 support price for barley was \$1.42 per bushel; for corn \$1.91; and for rye, \$1.66.

Support prices for both bread and feed grains are subject to small deductions for various taxes and storage and handling charges, including one known as "resorption" tax to cover losses on exports. All price supports are for a specified standard grade. Premium and discounts apply for variation from the standard.

Subsidies are required on exports of wheat and flour and other grains because the government's fixed producer prices are considerably higher than world market prices, while domestic production normally is much larger than home consumption.

Losses on exports of quantum wheat and other grains are covered in part by the resorption tax levied on producers at time of delivery, and in part by the Federal Treasury. Receipts of the Cereals Office from its export sales of nonquantum wheat are pooled. For exports of nonquantum wheat, farmers receive the average price at which the wheat was exported during the marketing year.

TABLE 16.--Wheat and feed grains: EEC supply, distribution, and net imports, averages 1955-56 through 1959-60 and 1957-58 through 1959-60, and annual 1959-60¹
(July-June marketing year)

Item	Wheat and flour ²			Feed grains ³		
	1955-56 through 1959-60	1957-58 through 1959-60	1959-60	1955-56 through 1959-60	1957-58 through 1959-60	1959-60
	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.	1,000 m.t.
Supply:						
Beginning stocks..	5,792	5,686	5,037	2,029	2,039	1,924
Production.....	23,501	24,818	25,826	⁴ 21,026	⁴ 20,523	⁴ 21,879
Imports.....	5,221	4,591	4,158	7,755	8,238	9,694
Total.....	34,514	35,095	35,021	30,810	30,800	33,497
Distribution:						
Domestic use.....	26,160	26,904	27,623	27,892	28,081	30,031
Exports.....	2,860	3,228	3,130	806	629	724
Ending stocks.....	5,494	4,963	4,268	2,112	2,090	2,742
Total.....	34,514	35,095	35,021	30,810	30,800	33,497
Imports:						
From United States	1,398	824	646	2,924	3,248	4,066
From EEC.....	710	816	896	506	436	435
From others.....	3,113	2,951	2,616	4,325	4,554	5,193
Total.....	5,221	4,591	4,158	7,755	8,238	9,694
Exports:						
To United States..	--	--	--	--	--	--
To EEC.....	681	780	855	445	362	375
To others.....	2,179	2,448	2,275	361	267	349
Total.....	2,860	3,228	3,130	806	629	724
Net imports:						
From United States	1,398	824	646	2,924	3,248	4,066
From EEC.....	29	36	41	61	74	60
From others.....	934	503	341	3,964	4,287	4,844
Total.....	2,361	1,363	1,028	6,949	7,609	8,970

¹1959-60 figures subject to revision.

²Grain equivalent.

³Excluding rye.

⁴Excluding grain sorghums. These are not produced in the EEC.

COMMON MARKET PROPOSALS

The principal objectives of the EEC with respect to wheat and feed grains are: establishment of a market with all the characteristics of a single domestic market; guidance for production in the light of internal and external market requirements; assurance of satisfactory incomes to producers; stabilization of market prices; and support of the legitimate interests of traders, processors, and consumers.

The hope is to complete all arrangements for the accomplishment of these aims by July 1, 1967, the date tentatively set for the beginning of the Common Market stage. Measures necessary for doing so are to be developed and gradually implemented during an intervening period, referred to as the preparatory or transition period.

In that connection, the Commission is responsible for establishing guidelines to be followed in formulating necessary implementing measures. A summary of these guidelines and proposed regulations, as amended up to May 31, 1961, follows:

GUIDELINES

Level of Wheat Production.-- Examination of the wheat policies currently followed by member states and foreseeable production and consumption trends, shows that it is urgently necessary for total EEC production, or, at any event, production for human consumption, to be stabilized at current levels. Since certain quantities of common wheat will have to be disposed of in other markets, the future EEC price policy must be such as not to create disequilibrium between production and consumption needs. Therefore, the common wheat policy must be directed toward:

- Encouraging production of durum wheat and of common wheats of higher baking quality to meet requirements of the pastry and baking industry; and
- Encouraging more intense geographical specialization so that the bulk of the marketable wheat produced will be produced under optimum conditions.

Profitability of Wheat Production.-- The price level for wheat, and the methods employed for ensuring that it is observed, must be such as to afford a satisfactory income to producers who attain normal standards of productivity in the predominantly wheat growing regions. In determining the level and the extent of the guarantees to be given, account must be taken of the traditional position held by wheat production in the earnings of EEC agriculture.

Market Stability for Wheat.-- Equilibrium between the supply and demand for wheat must be maintained throughout the year. In view of the low coefficient of elasticity and the steadiness of demand, it is essential to supplement activities normally carried out by the trade and cooperatives with action by public authorities if disposal of quantities produced is to be leveled out. Such action must include:

- Measures to spread offerings so as to bring the market into balance, facilitate observance of a generally stable price, and make bear speculation more difficult; and
- Association of the EEC with any collective efforts undertaken by outside importing and exporting countries for the purpose of maintaining stability of the world market price for wheat.

Level of Feed Grain Production.-- In formulating measures for organization of a common market policy for feed grains special account must be given of the following:

- Because of technical progress in its various forms, especially the reduced quantities of horse feed needed as motorization increases, the quantities of home-grown grain available for feeding livestock should continue to expand. This tendency will be particularly noticeable, if and when, after necessary measures have been taken in the wheat sector, a proportion of the area now under wheat is turned over to coarse grains. It is, therefore, advisable to insure, by adopting a prudent price policy, that this tendency, due essentially to technical causes, is not further accentuated by measures of an artificial character.
- The EEC has a need for 5.0 to 6.0 million tons of imported feed grains annually. The balance of imports in the consumption of coarse grains makes it easier to maintain traditional exports of animal products based on these grains. However, as long as the world market price of feed grains is below the domestic price, exports of animal

products derived from home-grown grains will entail losses. This is not in the interest of the Community's agriculture.

- Demand for animal products, and thus for feed grains, is elastic and can be expanded when economic conditions are favorable. Supplies of feed grains are also relatively elastic, since the domestic crop is used mainly by producers for feed, and farmers can relate their production to the demand for animal products based on them. Under these conditions, the aim of the feed grain price policy followed on the internal market in the interests of producers may be achieved with less governmental intervention than in the case of farm products for which there is less elasticity of demand (such as wheat), where home production covers or exceeds consumption, or where export markets are of little importance.
- The trend in feed grain production is influenced also by the relation between prices of various grains, especially the relation between the price of wheat and barley, the principal EEC coarse grain. Account must also be taken of the relative feed value of each grain.

Profitability of Feed Grain Production.--In the formulation of measures to assure profitability of feed grain production, all measures likely to affect coarse grain markets must be considered in conjunction with those which concern the pork, eggs, and poultry markets. Since off-farm sales of feed grains by farmers are comparatively small, incomes are determined much more by the price of the animal products based on feed grains than by the price of the feed grains themselves.

Market Stability for Feed Grains.--In view of the fact that incomes of feed grain producers depend largely on the prices obtained for animal products, it is essential that variations in supply and price on the markets for such products should not be accentuated by excessive fluctuations in the market price of feed grains.

Protecting Interests of Trades, Processors, and Consumers.--Support must be given to the progressive establishment of a policy for wheat and feed grains which will enable the market to play its part in price formation and guidance for production. This will entail measures to:

- Eliminate obstacles likely to impede satisfaction of the quantitative and qualitative needs of traders, processing industries, livestock feeders, and consumers;
- Enable the trade to carry out its traditional tasks unhampered as long as market stability is not jeopardized;
- Insure in the interest of promoting general economic expansion and improvement in living standards, that prices which have to be paid by milling and processing industries, livestock interests, and exporting industries will be as low as possible; and
- Rationalize wheat processing and distribution so as to eliminate wide differences in margins between the price paid to producers for wheat and the price paid by consumers for bread.

Target Prices for Wheat and Feed Grains.--To insure price stability and judicious guidance for production, wheat and feed grain producers must be given guarantees that they will not suffer from the consequences of a marked decline in prices, and assurance that when they begin preparations for a new crop the EEC price policy will be continued. To meet these requirements, a target price system will be established for EEC-grown wheat, barley, and corn. The target price is an "orientation price" at the wholesale purchasing stage. It will serve as the base for fixing the guaranteed producer price and such levies on imports as are necessary to maintain internal market prices at target levels.³ In that connection, each member state will be required to:

³The proposal avoids any suggestion as to the future level of target prices.

- Fix a basic annual target price for the stated grains which shall be valid in the wholesale marketing center of its largest deficit area for a specific standard quality, taking into account production and producer income goals, i.e., stabilization of production at current levels for wheat and discouragement of further accentuation of feed grain production by artificial measures. The basic target prices shall be fixed annually before the winter plowing season for application at the beginning of the marketing season.
- If the price difference caused by natural market forces between the market price in the marketing center of the area with the largest deficit and the market price in the marketing center of the area with the largest surplus exceeds 5 percent, member states shall fix, starting from the basic target price in the marketing center of the area with the largest deficit, target prices for the stated grains in keeping with natural price differences for each of their most important marketing centers.
- For the first 9 months of the marketing year, the member states shall establish a monthly schedule of target prices calculated by increasing the basic target prices by storage and interest costs for the monthly carry-forwards.

Intervention Purchases.--In order to guarantee that the sales price received by producers will be as close as possible to the target price and one which at the same time will provide for variations in local market prices, the European Grain Office (see section on European Grain Office) and its various state counterparts shall make intervention purchases whenever necessary throughout the marketing year to stabilize the market. In that connection:

- Each member state shall fix, before the beginning of the marketing year, its intervention prices for wheat, barley, and corn. Such intervention prices shall be equal to the target prices reduced by a fixed percentage ranging between a minimum of 5 and a maximum of 10 percent.
- Holders of EEC grain shall be entitled to offer their grain to appropriate member state market intervention agencies throughout the marketing year at the prices above provided for. In addition, their agencies may intervene in the market whenever the marketing situation dictates.
- The market intervention agencies of member states cannot dispose of grain thus purchased in any member state at a price lower than the target price valid for the marketing center at the point of sale.
- Before the end of the 3rd year of application of the variable import levy system (see next section) the Council, upon proposal of the Commission, shall fix the share of the Orientation and Guarantee Fund (see section on funds) to be used by member states for such intervention purchases. This share shall be increased progressively so that the disbursements will be fully borne by the Fund beginning with the 6th year of application of the variable import levies.

Variable Import Levies: General Principles.--Tariffs do not provide the flexibility required for quickly adapting to conditions ruling on world markets, especially for stabilizing the internal market and assuring that target prices will be sufficiently independent of factors distorting world market prices. (The preceding section on Current EEC Production and Trade Policies shows that tariffs no longer play any role in controlling EEC imports.) For these reasons, the Commission proposes to eliminate customs duties completely in favor of a system under which differences between world market and target prices will be offset by a system of variable import levies in accordance with the following principles:

- By imposing compensatory levies on imports i.e., increasing the prices that have to be paid for imports, whenever the c.i.f. price for the imported product is lower than the EEC border price for the home-grown product.
- By adjusting the compensatory levies i.e., lowering the prices that have to be paid for imports to the level of the EEC price, by way of a subsidy to users whenever the

c.i.f. price is higher than the EEC border price. In this case, exports of EEC wheat and feed grains and their products to outside countries would be subject to a levy.

- The import levies, to be assessed by the individual member states and deposited in special funds (see section on funds) will be applicable on a nondiscriminatory basis to all imported bread and feed grains, wheat flour, and most other grain products resulting from the first stage of processing. During the transition period, they will be applicable to imports from all countries. After the transition period, they will be applicable only to imports from non-member countries.

Levies on Imports from Nonmember Countries.--In the case of imports from nonmember countries, the amount of variable import levy will be equal to the difference between the lowest c.i.f. price on the world market and the border price in the importing member state.

- The c.i.f. price shall be fixed by the Commission, after consultation with member states, for the product delivered to a single point of importation, on the basis of world prices adjusted according to variations in quality from the standard quality to which the EEC border price applies.
- The single point of importation for its imports will be determined by each member state. The border price used in determining the variable import levies on imports from non-member states will be the same as that established for imports from member states. (See "Levies on imports from member states.")
- If the free price on the world market does not determine the sales price offer, and if this sales price is below the world price, the c.i.f. price for the import in question shall be replaced by a price determined by the Commission after consultation with the member states.

Levies on Imports from Member States.--In the case of trade between member states, the variable import levies will be fixed and implemented in accordance with the following principles:

- The import levies on intra-community trade will be equal to the difference between the price of the product in the exporting member state, delivered f.o.b. border of the importing member state, and the border price of the importing member state. The levies on intra-community trade will be progressively reduced (by an amount to be fixed by the Council upon recommendation of the Commission) so as to permit increased trade among member states and facilitate establishment of a single market at the end of the 6th year of operation of the import levy system.
- Border prices in each member state shall be fixed annually for a standard of identical quality and communicated to the Commission and member states not later than 4 months before the beginning of the marketing year. The quality standards shall be fixed by the Commission after consultations with member states.
- The f.o.b. border price of an exporting member state for goods delivered at the border of an importing member state shall be determined by the Commission, after consultation with member states, on the basis of sales prices in the most representative markets of the exporting member state for export to the respective importing member state, adjusted in accordance with possible differences in quality in relation to the quality standard for which the border price is fixed.
- With regard to wheat, barley, and corn (the last only in member states producing substantial quantities, i.e., France and Italy), the border prices for a standard quality product shall be fixed in each member state in such a manner that the sales price of the imported product in the commercial center of the largest deficit area cannot be less than the target prices established for that center.
- With regard to all other grains (including corn in member states which are not substantial producers and flour from wheat and spelt), border prices for standard quality in each member state shall be commensurate with the level of the target

prices fixed for home-grown soft wheat, barley, and corn. However, with respect to wheat or spelt flour, the Council shall formulate, upon proposal of the Commission, the criteria by which the border price shall be set by member states.

Levies on Durum Wheat.--The variable import levy on intra-community trade and trade with non-member countries in durum wheat shall be equal to that levied on imports of soft wheat. However,

- Member states shall fix a guaranteed producer price for durum wheat⁴ of a standard identical quality and shall grant producers a subsidy to compensate them for differences between the guaranteed price and the wholesale price of durum wheat; and
- The share of this subsidy that will be financed by the Orientation and Guarantee Funds for Grains (see section on funds) shall be determined annually by the Council. This share shall be increased every year so that all of it will be borne by the Fund within 6 years after application of the system of variable import levies.

Levies on Processed Products.--With respect to products processed from grain⁵ the amount of the variable levy on imports, either from countries within or without the Community, shall consist of the three following elements:

- A variable element to equalize the incidence of the variable import levies set for the base product i.e., the grain from which processed, on production costs of such processed products. The amount of this element shall be revised in keeping with changes in the import levies on the base products, and it may be calculated or revised arbitrarily.
- A fixed element to provide necessary protection for the processing industries. As regards trade among member states, this fixed element shall be gradually reduced so as to bring about its complete abolition 6 years after the date of application of the import levy system. The fixed portion would remain unchanged for imports from nonmember countries.
- Within 6 months of the entry into force of the proposed variable import levies, the Council, upon proposal of the Commission, shall issue regulations covering terms and conditions for their application to processed products.

Permissible Changes in Levies.--The actual amount of the variable import levies on trade between member states and on imports from nonmember countries shall be calculated by the member states in accordance with the provisions outlined above and shall be communicated to the Commission and to other member states. In that connection:

- The Commission shall change the amount of the levies, after consultation with member states, in accordance with variations in the elements which served as a basis for their establishment.
- The Council, upon proposal of the Commission, shall issue regulations necessary to prevent any diversion of trade in member state or third country products between the member states or between member states and third countries which might be caused by differences in the variable levies on imports from member states and third countries.

Applicable Date of Import Levies.--The amount of the variable levies on imports from member states and from outside countries shall be that which is in force on the actual date of importation. However:

⁴The proposals envisage a higher target price for durum wheat than for other wheat. They would not, however, make this higher price effective by means of a levy on durum imports, but rather by deficiency payments to producers.

⁵Cereal flours; cereal groats and meal; other worked cereal grains (rolled, flaked, polished, pearlled, or kibbled, but not further prepared) except husked, glazed, polished, or broken rice; germs of cereals; starches of grains; gluten and gluten flour; brans, sharps, and other residues derived from sifting, milling, or working of cereals, except from rice; and sweetened forage and other preparations used in animal feeding.

- In the case of imports from outside countries made within 3 months of the date of application for an import license (see section on import and export licensing), the variable levy will be that which is in effect on the date of application for the license after adjustment of the border price in force on the date of importation.
- For purposes of such adjustment, the levy shall be increased by an extra charge, the amount of such charge to be determined by the Commission in accordance with the following factors: delay in effecting the importation compared with the scheduled date of importation, the world market situation and the market situation in member states, and the number of import licenses that have been issued by the member states.
- The combined amount of the variable levy and of the extra charge shall be definitively determined on the day of application for an import license and the payment, for which a guarantee deposit must be made, will be due whether or not the importation is actually effected.

Termination of Customs Duties and Quantitative Restrictions.--Because of their incompatibility with proposed system of variable import levies, the following practices of member states must be terminated as soon as that system goes into effect:

- Assessment of customs duties or tax with equivalent effect and application of quantitative restrictions or measures with equivalent effect on trade between member states.
- Any long-terms agreements or contracts between exporting and importing member states.
- Granting of aid or application of any other measures by a member state having the direct or indirect effect of reducing the price of its product below the level which serves as the basis for calculating the variable import levy, or having a direct influence on price relationships between processed products and their base products.
- Assessment of customs duties or tax with equivalent effect and application of quantitative restrictions or measures with an equivalent effect on the trade of member states with non-member countries, unless, with respect to quantitative restrictions, a derogation is provided by the Council, upon proposal of the Commission, in the period prior to January 1, 1964.

Import and Export Licensing Systems.--In order that the proposed system of variable import levies may operate effectively and in accordance with changing world market prices; import and export licenses shall be issued by member states for all imports and exports of grain and grain products. In that connection:

- The Commission shall be kept regularly informed by the member states of the quantities for which such licenses have been issued.
- Import licenses will be valid for 3 months. Their issuance obligates the importer to effect the licensed import.
- The Commission shall establish the necessary implementing measures after consultation with the member states.
- Should imports from nonmember countries increase to such an extent as to threaten grave disturbances in the markets of any member state, and particularly if the market intervention agencies should have made substantial purchases of EEC grains or grain products, issuance of import licenses will be suspended (without discouraging imports of quality wheats not produced in the EEC) until the disturbances or threat of disturbances shall have disappeared.

Facilitating Exports.--Balance between EEC production and consumption of grains is one of the guiding principles of market policy. In view of increased EEC production due to the rapidity of technological progress and the fact that the Common Market envisages permanent imports of wheat and feed grains, opportunities must be provided to assure expansion in export outlets for EEC grains. In that connection the proposals provide:

Intra-Community Trade: Payment of rebates in the case of exports from one member state to another whenever the latter has a lower border price either for the product concerned or for the base product used in its manufacture. Such rebates must be equal to the rebate granted by the member state on its exports to nonmember countries. Moreover, if such a rebate is granted, the amount of the variable import levy assessed by the importing member state shall be equal to that which it assesses on imports from nonmember countries.

Trade with nonmember countries: Payment of subsidies in the case of exports to nonmember countries equal to the difference between the world market price and the price prevailing in the exporting member state concerned.

Rebates on exports of processed products: Payment of rebates or refunds may be made on exports of processed grain products and of livestock products equal to such portions of their production costs as are due to the import levies on grains.

Exports for account of the European Grain Office: Facilitating exports by the trade for the account of the European Grain Office, using for that purpose the tendering procedure accompanied by issuance of appropriate instructions to exporters who offer the most favorable conditions.

Export licensing: While exports of wheat and feed grains and their products will be free and, in principle, subject to no restrictions, the Commission may make exports subject to licensing whenever the market situation requires such action.

Market development: Research into the practical possibilities for expanding export outlets in the associated overseas countries and territories and in nonmember countries.

European Grain Office.--In view of the divergent policies and programs adopted by member states for the solution of their wheat and feed grain marketing problems and the impossibility of adopting any one of them for application to the Community as a whole, the proposals provide for coordination of existing national marketing agencies and legislation governing their operation into a Common Market system to be operated by a European Grain Office under the control of the Commission. The responsibilities of this Office include:

- Utilization of existing national marketing agencies of individual member states and supervision of their activities to insure operation in accordance with the overall objectives of the Common Market for grains.
- Making such intervention purchases of EEC grains and sales from its stocks as are necessary to maintain market stability.
- Providing the basic information needed for fixing and collecting variable import levies and for payment of export subsidies and rebates on exports of grain and processed products.
- Promoting measures likely to facilitate attainment of EEC objectives with regard to grains, including measures necessary for the discharge of the Community's responsibilities under the International Wheat Agreement and the General Agreement on Tariffs and Trade, and measures for rationalizing a system of stockpiling.

Funds.--In order to assure funds needed for organization of the EEC market, a Common Market Orientation and Guidance Fund shall be established. In that connection, the proposals provide:

- The Orientation and Guidance Fund shall be broken down into separate funds for specified products, e.g., a Wheat Market Stabilization Fund and a Feed Grain Market Stabilization Fund.
- Sources of revenue for the funds will be proceeds from variable levies on grain and grain products imported from member and nonmember countries, proceeds from rebates on exports from one member state to another, contributions by the individual governments of member states, contributions by producers, and transfers from one fund to another, e.g., from the animal products fund to the feed grain fund.
- All of the proceeds accruing to individual member states from variable import levies on intracommunity trade and from rebates on exports from one member state to another must be deposited in their individual market stabilization fund for grains. The same is true with respect to proceeds accruing to member states from the variable import levies on imports from nonmember countries.
- Such funds will be used to cover intervention purchases, refunds, or rebates on exports of processed grain products or on exports of livestock products equal to such parts of their production costs as are due to the import levy on grains, and subsidies to offset losses on exports to nonmember countries made at world market prices.
- For the purpose of building up wheat and feed grain funds to a point where they will be able to cover the entire cost of subsidies and rebates on exports to nonmember countries and rebates on exports from one member state to another, each member state shall make a special contribution to those funds in accordance with the following schedule:
 1. For the first year of application of these regulations, a contribution equal to one-sixth of the total receipts obtained from the variable levies on imports from non-member states;
 2. For the second year, a contribution equal to two-sixths of the total receipts; and
 3. For each of the next 4 years, a contribution similarly increased by one-sixth annually.

Miscellaneous Measures.--Other proposals for organization of a Common Market for wheat and feed grains include:

Loans to producers: Development of a system of loans on crops, to be secured by quantities stored on farms or in approved establishments, so as to encourage producers to hold their grain off the market until the most propitious moment.

Annual supply programs: Drawing up of annual estimates of EEC grain supplies and requirements.

Consultative committees: Establishment of consultative committees, representing producers, traders, and industrial organizations concerned, to advise the Commission on problems associated with the development of a Common Market for grains.

Regulations to achieve a uniform price: The Council, upon proposal of the Commission, shall issue the regulations necessary to achieve alignment of grain prices and a common price system, particularly regulations for determining the following:

1. A basic target price valid for the entire Community (see section on target prices.)
2. A common method of determining the intervention price (see section on intervention purchases.)
3. A single border price for grain and grain products (see sections on variable import levels.)

4. A single point of import for the Community for the determination of the c.i.f. price of imports from nonmember countries (see sections on variable import levies.)

Processed grain products: With a view to realization of specific objectives, especially as regards processed products, the Council may, upon proposal of the Commission, exclude any specified products or take any measures derogating from the present regulations with regard to particular quantities or qualities of such products.

Rebates to ultimate consumers: If, in any member state, as of the entry into force of these proposals, the ultimate consumers do not pay the same price for imported grains as they pay for home-grown grains, the member state may grant them a rebate on the levy on the imported product. Such rebates shall be gradually reduced so as to abolish the price difference within 6 years of the entry into force of the system of variable import levies.

Price guarantee applicable to entire crop: Member states limiting their price guarantees to a certain quantity shall adjust their regulations so that this practice may be completely abolished within 6 years of the date of entry into force of the present regulations.

Timetable for Implementing Proposals

While tentative target dates have been set by the Commission for implementation of its proposals for wheat and feed grains, the precise date of their application may be changed. Its amended proposals of May 31, 1961, merely provide:

Adjustment of Existing Measures.--Member states shall take all appropriate steps to adjust their existing legislative, regulatory and administrative measures applicable to grain and grain products so that all provisions of the present proposals (with respect to the import levy system and its associated measures) may be put into effect on July 1, 1962.

Measures for Implementation of Proposals.--Except as otherwise provided by the present regulations, the Council, upon proposal of the Commission, shall determine, within 6 months of the entry into force of the present regulations, the necessary measures for their application as provided for by the present regulations.

Compulsory Mixing of Home-Grown Grain.--Member states shall abolish all regulations for compulsory mixing of home-grown with imported grains not later than July 1, 1962.

Intervention Purchases.--Member states shall take all necessary steps to apply the proposed system of intervention purchases (see section on intervention purchases) within 3 years after the date of the application of the variable import levy system.

Abolishment of Customs Duties.--All customs duties, permanent quantitative controls over imports, long-term contracts and measures with equivalent effect on imports of grain and grain products shall be abolished as soon as the proposed system of import levies goes into effect.

Common Price Level for EEC Grains.--Target prices in the individual member states shall be gradually adjusted so that they may be brought to a uniform level for the entire Community by July 1, 1967.

Regulations Binding in All Member States.--The present regulations are binding in all details and are directly applicable in every member state.

General Outlook

Whether future U.S. bread and feed grain exports to the Common Market area can be expanded or even maintained at the level of the 5-year period ending with 1959-60 depends on several factors. The most important will be the level of support prices maintained by EEC countries for home-grown grains and the degree of import control necessary to maintain prices at the desired level. The proposals provide for establishment of a uniform level of grain prices by a gradual reduction in supports in countries (such as Germany) where they are high and an increase in countries (such as France) where they are relatively low. However, even the lowest EEC support prices are higher than those in the United States. Raising them would inevitably encourage a further increase in uneconomic production.

Other factors that will determine the future level of U.S. grain exports to the area include the proposed imposition of levies on imports; future levels of economic activity in the EEC as a whole, particularly industrial production and employment; rate of expansion in consumer demand, especially for livestock products, as a result of increased employment, wages, and consumer purchasing power; and the opportunities for expansion in EEC exports of industrial products and raw materials.

In some respects, the proposals appear to be in the nature of a liberalization of existing impediments to trade. This is especially true with regard to the proposed elimination of compulsory mixing regulations, permanent quantitative controls over imports, and discriminatory bilateral agreements, all of which in the past have operated to keep imports of U.S. grains to a minimum.

However, any favorable effects from the elimination of such practices could be entirely offset by application of the proposed system of variable import levies, import licensing, and suspension of import licenses whenever the market situation requires the European Grain Office to intervene by purchasing home-grown grains at guaranteed prices.

While many European farmers will continue to push for self-sufficiency in both bread and feed grains, the proposals avoid making self-sufficiency an outright objective of EEC policy. Nevertheless, they appear designed not only to maintain production at current high levels, but also to develop export outlets in non-EEC countries, such exports to be subsidized by funds collected from import levies. On the whole, they consolidate and perpetuate existing policies rather than liberalize them.

Maintenance of EEC price supports high above world market levels, supplemented by insulation of EEC producers from the effects of lower world market prices, can hardly do other than promote increased self-sufficiency. Obviously, this does not bode well for the future of U.S. grain exports to the area.

Wheat

The area's total imports of wheat and flour (all types combined) during the 5-year period ending with 1959-60 averaged 5.2 million metric tons grain equivalent annually, of which 4.5 million metric tons came from non-member countries. Approximately 1.5 million tons were imported for quality reasons. Canada supplied the bulk of the quality wheat. Imports of such wheat from the United States averaged between 350,000 and 400,000 tons annually. The total need for imported quality wheat is expected to continue at the 1.5 million ton level, at least up to 1965.

But, allowing for increases in production and consumption, the need for other types of wheat from outside countries, imports of which averaged 3.7 metric tons during the stated period, will be eliminated entirely by 1965. About a third of such imports came from the United States. Prospects are, therefore, that annual wheat and flour imports from the United States will be reduced by 1965 to residual quantities of quality wheat--350,000 to 400,000 tons needed for bread-making--compared with the current average annual imports from this country of 1.4 million tons of all types combined.

The U.S. share of EEC wheat and flour imports has declined in recent years, both in terms of total quantity and in terms of percentage of total EEC imports. Simultaneously, trade in wheat and flour among EEC countries themselves has increased, but without meeting requirements of the importing countries for quality and without precluding exports to non-member destinations.

The traditional and potential market for U.S. wheat and flour in the EEC area is jeopardized because the intent of the Common Market policy is to limit imports to durum wheat, in which the EEC is chronically deficit, and to such quantities of quality bread wheats as are required for flour production in Germany, Belgium, Luxembourg, the Netherlands, and Italy. Unfortunately, the United States is not a consistent exporter of durum wheat, because of variability in production, and supplying the EEC demand for quality wheats is shared by Canada, the Soviet Union and Argentina.

The United States has long been exporting soft red winter wheat and ordinary hard winter wheat (frequently referred to as "filler wheat"), as well as the stronger high protein hard winter and hard spring wheats, to EEC countries. Further increases in EEC production of soft wheat, likely to result from continuation of high support prices and other policies of the six countries with respect to wheat, will obviate the necessity for any imports of soft wheats from non-EEC sources and would probably make the area as a whole a substantial net exporter in the near future. Such surpluses could be disposed of only with difficulty and at a substantial loss.

The future trade picture remains clouded because of uncertainty as to the level at which EEC target or support prices will be fixed for home-grown wheat. Even if, as has been proposed, the supports are pegged at the current Belgian level of \$2.56 per bushel, which would represent a sharp reduction for high support countries like Germany and Italy and a substantial increase for low support countries like France and the Netherlands, the uniform price would still be considerably above the world market price. Moreover, the change would stimulate increased production of soft wheat, especially in France, the largest EEC surplus producer, and a corresponding increase in export availabilities.

Germany has the largest wheat deficit among the EEC countries. Yet, compulsory mixing regulations are used in Germany to insure that home-grown wheat will be milled into flour while imports of quality wheat are held to the lowest level consistent with production of satisfactory bread flour. In spite of its trade agreement with France, French wheat has not held a preferred position in meeting the filler wheat requirements of the German market.

Italy is intermittently a surplus and deficit producer of common wheat, and definitely a deficit producer of durum wheat. Yet, in years of surplus production of common wheat, very little of the Italian surplus goes to the German, Belgian, and Dutch markets because of transportation costs and insufficient baking strength of Italian wheat. In recent years of deficit production, Italy has purchased its wheat import requirements from countries other than France.

Belgium and the Netherlands are potential producers of small surpluses of common wheat, but have to import large quantities of quality wheat to insure supplies of satisfactory bread flour. Home-grown soft wheats are used only because of compulsory mixing regulations which limit imports to better quality wheats.

When the Common Market is fully established for wheat, and if its organization approximates that envisaged in the proposals, Dutch, Belgian, German, and Italian traders will undoubtedly seek to develop export outlets in non-EEC markets for such quantities of their common wheats as are necessary to offset the tonnages of imported quality wheats needed by their milling and baking industries.

Export subsidies and refunds of charges levied on wheat and flour imports will be used to facilitate exports. Such exports, of course, would compete in world markets with exports of ordinary wheat from France as well as with such wheat from non-EEC exporting countries.

Feed Grains

The area's total imports of feed grains during the 5-year period ending with 1959-60 averaged 7.8 million metric tons annually, of which 7.2 million tons came from non-member countries. Of the latter quantity, 2.9 million tons, or more than 40 percent, came from the United States.

Prospects are for continued large imports from the United States during the next several years, although not at the record levels of recent years. This opinion is based on the belief that the area's feed grain deficit will continue to be larger than that for wheat, and that expansion in production during the next few years will not keep pace with increasing requirements.

Feed grain production in the EEC has been expanding steadily. The 1959-60 crop amounted to 22.0 million metric tons compared with the 1955-59 average of 21.0 million tons and the 1950-54 average of 16.0 million tons. Continued maintenance of feed grain prices well above world market levels and import controls will prevent any reduction in current levels of production and may even stimulate some further expansion. However, the increase is not expected to keep pace with anticipated increase in requirements unless action is taken by the six countries to bring about a reduction in wheat production in favor of feed grains and to convert lands now idle or in grass or root crops to feed grains.

There are widely divergent views among scholars and grain traders in the EEC as to the relative increase in the area's future feed grain requirements and production. These range from assertions that any system of price supports inevitably leads to increased production to postulates that there are substantial acreages which can be converted to feed grain production.

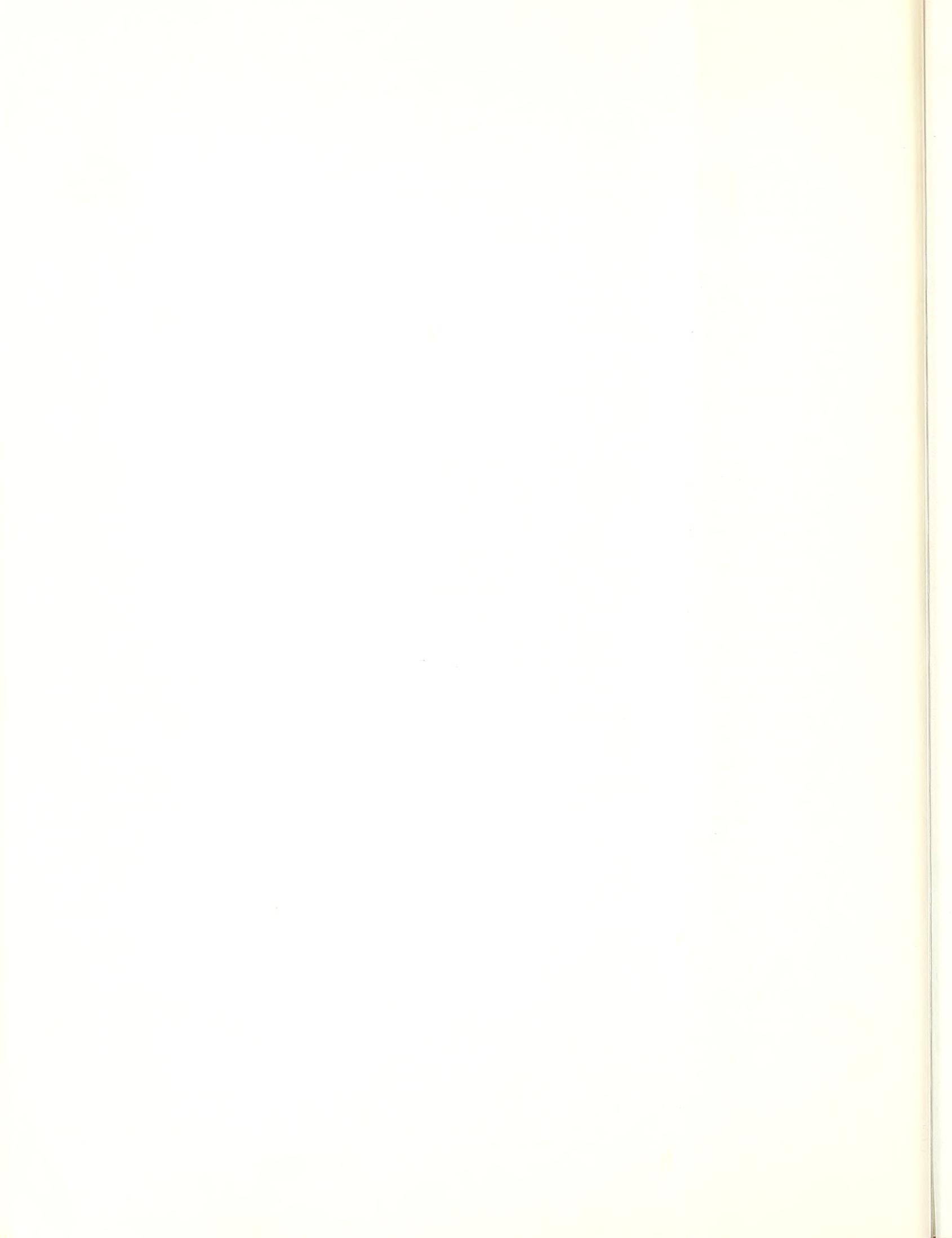
Such shifts would require conversion of permanent grasslands and some idle lands as well as some land now under forage and root crops to feed grain production. Indications are that at least 5 million acres are available for such use, mainly in the southern and northeastern sections of France.

Proponents of such conversion claim that given appropriate incentives together with more intensive production methods and greater use of fertilizers, the EEC could become an export surplus producer by 1970. On the other hand, many European economists who have studied the question are of the opinion that any increase in production would no more than keep pace with increasing feed grain requirements resulting from anticipated increases in consumption and exports of livestock products.

It should be noted that various factors, especially labor shortages resulting from movements from rural to industrial centers because of employment opportunities, which led to earlier conversion from grain production to grasslands are still operative. Reconversion of grain lands to feed grain production assumes that it would be economically possible to mechanize production sufficiently to offset the relatively higher labor requirements of grain farming, and that the traditional habits and ideas of farmers in such areas regarding animal feeding can be quickly changed.

Although shifts in land use are possible, one may well question whether they can be achieved within the current decade. In the absence of effective agreements regarding pricing policies among the individual member states, it is reasonable to expect that any substantial shifts would require a considerably longer period.

In the last analysis, the question of reconversion depends on profits possible from feed grain production. Any substantial price increase would undoubtedly stimulate an increase in feed grain acreage. Increased feed grain prices, however, would also be reflected in higher prices for beef, pork, dairy products, poultry, and eggs. This would tend to reduce the demand for such EEC products in both EEC and export markets. In view of the importance of livestock in the economy of all EEC countries and the fact that cheap feed is necessary for maintenance of a prosperous livestock industry, it is not likely that the Common Market will permit feed grain prices to increase to a point where they would jeopardize the interests of livestock producers.





Growth Through Agricultural Progress

